Forestry Innovation Investment Ltd.

SERVICE PLAN

2004/05 – 2006/07

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I am pleased to present the 2004/05 – 2006/07 Service Plan for Forestry Innovation Investment Ltd. ("FII"). The plan sets out the corporation's goals and objectives, the strategies it will use to attain them, and the performance measures and targets for the next three years.

FII was established to manage and deliver the government's forestry research, marketing and product development programs. Effective April 1, 2004, the Research Program will be transferred to another administrator, leaving the focus on product development and international marketing, which includes the BC Market Outreach Network and the Dream Home China project. FII will remain responsible for the Research Program until the close of its 2003/04 fiscal year.

FII is funded through an agreement with the Minister of Forests and by an appropriation provided to its programs through the annual estimates process in the legislature. While this document presents a three-year plan, FII operates one year at a time, with future years contingent on the vote in the legislature. FII successfully negotiated a transition from a previous administrator on April 1, 2003, and entered its second year of operations with a sound business framework that ensures accountability for its investment funds. While this plan is presented as the document to help guide the future of FII, it should be acknowledged that certain performance measures are still under development as this is the first full year in which FII has operated as a separate entity. As such, FII is still in the process of gathering baseline information against which specific targets can be established. It is the intent of FII to report out on this baseline information in its Annual Service Plan Report, at which time it will recognize the intended progress to be achieved in the future against this data.

In 2004/05, FII will proceed with the implementation of its Dream Home China project in Shanghai, an ambitious enterprise that includes a presentation centre and demonstration properties that will showcase how B.C. wood and construction techniques can be used in the booming Chinese market. Once the buildings are completed early in the fiscal year, they will be used for promotional activities. FII will operate in China through its wholly owned subsidiary, FII Consulting (Shanghai) Co. Ltd., a company registered in China for this purpose.

Also in 2004/05, FII will implement marketing strategies in each of the foreign markets identified for investment, expanding into emerging markets while maintaining market share in the United States and Japan. Through the BC Market Outreach Network, FII will continue to tell customers at home and abroad about B.C.'s world-class forest management through its website, www.bcforestinformation.com, and promotional products produced in a number of languages.

It will be an exciting year as FII and its many partners continue to help strengthen B.C.'s forest economy by breaking down international barriers, finding new and innovative products, promoting the facts about forest management and delivering on-the-ground results through innovative projects like Dream Home China.

Doug Konkin, Chair
Forestry Innovation Investment Ltd.

Accountability Statement

The 2004/05 – 2006/07 Forestry Innovation Investment Ltd. Service Plan was prepared under our direction in accordance with the *Budget Transparency and Accountability Act*. We are accountable for the basis on which the plan has been prepared. The plan was developed in the context of the government's commitments contained in its Strategic Plan, which are to be addressed by May 17, 2005. All material fiscal assumptions and policy decisions as of March 31, 2004 have been considered in preparing the plan and we are accountable for achieving the specific objectives in the plan.

Doug Konkin
Board Chair, Forestry Innovation Investment Ltd.

Christine Kennedy
CEO, Forestry Innovation Investment Ltd.

Date:

Forestry Innovation Investment Ltd.

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A. CORPORATE OVERVIEW

Forestry Innovation Investment Ltd. ("FII") was incorporated on March 31, 2003 under the Company Act of British Columbia. The Province of British Columbia, as represented by the Minister of Forests, is the sole shareholder of the company. The company is managed through a board of directors made up of the deputy ministers of Forests, Finance, and Small Business and Economic Development, as well as FII's president and chief executive officer. The president and chief executive officer is a member of the board of directors only until such time as the new Company Act comes into force, which is expected in Spring 2004.

FII is responsible for the delivery of the International Marketing and Product Development programs as well as the BC Market Outreach Network and the Dream Home China project. FII operates under an agreement with the province and requires a voted appropriation from government in order for the organization and its programs to continue each year.

FII is a B.C. government investment mechanism for promoting awareness of B.C.'s forest management and practices in British Columbia, and for increasing the value of the forest asset through product development and marketing activities. FII programming focuses on joint public-private projects of general benefit to the forest sector.

FII is located in Vancouver and the Dream Home China project is to be carried out by a subsidiary company established in Shanghai.

Core Lines of Business

FII's services are organized into three core business areas:

- International marketing - to improve B.C. forest sector performance in existing and new markets through international marketing initiatives;
- Product development –to enhance sector competitiveness through the development of new products and manufacturing process improvement; and
- Market communications – to support initiatives that effectively communicate B.C.'s forest management and standards to customers.

International marketing, including market communications, is derived from government's commitment to allocate 1 per cent of direct stumpage revenues to international marketing of B.C. forest products and forest practices. Product development, however, is funded through the Forest

Investment Account directly.

FII conducts its business in large part through annual funding agreements with industry associations, which submit annual proposals that meet the criteria established to ensure their projects are in line with FII's program objectives and market strategies. In this way, FII is a funding mechanism and investment monitoring company, with the recipients managing the delivery of project activities.

FII leads on other initiatives, where gaps exist or where more effective delivery or services will result. Examples of this direct delivery are the BC Market Outreach Network and Dream Home China project. The former was established to fill a gap, and provide a single, coordinated approach for communicating information on B.C.'s forest practices in a meaningful way. The need to adopt a provincial perspective in China led to the creation of the Dream Home China project. This project provides the strong base for future market development in China. FII also initiates market research directly when necessary, and develops and maintains broadly-focused multilingual marketing tools such as DVDs, publications, and websites.

FII Consulting (Shanghai) Co. Ltd.

In order to operate in China, the laws of the Peoples' Republic of China (PRC) required that FII establish a wholly owned subsidiary, FII Consulting (Shanghai) Co. Ltd., ("FII Shanghai"), a company registered in China for this purpose. FII Shanghai is a Wholly Foreign Owned Enterprise (Consulting), which under PRC law enables the company to use facilities constructed in Shanghai to carry out FII's marketing and promotional activities in the Chinese market. FII's president and chief executive officer is also the executive director of FII Shanghai. This position, which has overall responsibility for the operations of the company, reports to the FII Board of Directors. The position of executive director of the FII Consulting (Shanghai) Ltd., and the reporting relationship to the existing FII Board of Directors, is based on the laws governing Wholly Owned Foreign Enterprise operations in the PRC.

The centrepiece of the company's activities will be the presentation centre built as a facility that can be used to host conferences and meetings, and conduct training sessions for Chinese government officials, builders, architects and others influential in the construction industry. Several villas built with wood will be completed early in 2004/05. They will be used to show the versatility of wood products and construction techniques, and will help to promote the use of wood in construction, particularly for single-family homes.

Since FII Shanghai exists only to provide a legal mechanism for the delivery of FII's marketing

strategy in China, no separate Service Plan has been developed for the company. FII Shanghai does not have its own distinct goals and objectives, as the exclusive purpose for its existence is to provide the legal framework by which FII's marketing strategy in China – including the Dream Home China project – can be carried out in compliance with the laws of the People's Republic of China. The organization functions as a division of Forestry Innovation Investment Ltd., and therefore mirrors FII's goals and objectives. FII Shanghai's performance measures and targets are embedded in those of FII in the Chinese marketplace.

B. STRATEGIC CONTEXT

Vision

International forest product and forest practices marketing that supports maintained access to and enhanced opportunities within international markets, and enables a BC forest sector that is leading edge, globally competitive, and able to provide a sustainable flow of economic benefits to communities and the Province of British Columbia.

Mission

To be an innovative and highly efficient model for the delivery of forest sector programming, in collaboration with government and industry, that contributes to the global competitiveness and enhances the reputation of the forest industry and B.C. through strategic investments in international marketing and product development.

Services

Forestry Innovation Investment Ltd. ("FII") is responsible for managing or supporting the delivery of several broad, interrelated activities:

- Strengthening B.C.'s position and developing new opportunities in existing markets;
- Developing new markets, and promoting B.C.'s wood products and construction techniques in these markets;
- Developing and testing new wood products, manufacturing processes and applications; and
- Extending information to international customers and markets to enhance the reputation of B.C.'s forest management and practices.

FII is also committed to achieving a high standard of organizational performance and provides

corporate support services to ensure FII is an efficient and effective organization.

Outcomes

FII investments are expected to result in:

- Better understanding and strengthened share of new and existing markets;
- New products, processes and applications that improve the competitiveness of B.C. forest product manufacturers; and
- Increased awareness and support for B.C.'s forest management and practices.

Ultimately, FII investments and outcomes are expected to contribute to the global competitiveness of B.C.'s forest industry and increased economic health for the province.

Planning Context

FII was created to promote B.C.'s forest management and practices in British Columbia and to develop and implement strategies for retaining B.C.'s current market share for wood products as well as opening up new international market opportunities for the province's wood industry.

FII's Operating Environment

FII is a newly established government organization, which came into existence effective April 1, 2003. One of the primary reasons for FII's creation was to improve B.C.'s position in the international marketplace. The organization achieves these ends through the completion of comprehensive market strategies in each of the identified key markets, and through improving coordination among the various wood product associations seeking opportunities for their industry members' products internationally. In order for FII to deliver on its objectives, it must rely in part on these association partners to deliver portions of the programs through annual funding agreements. These agreements are established through a competitive request for proposals process which allows the proposed activities to be evaluated against FII's strategies to ensure they meet the goals and objectives of the corporation

FII Doing Business Overseas

In order to achieve these objectives, FII has had to break new ground in conducting business overseas. FII is establishing a corporate presence in China, which is a move unprecedented in provincial history. Carrying out business in international markets presents a unique set of challenges such as the requirement to recognize and work through cultural differences and understand the different business protocols and laws which are an essential part of building the successful relationships necessary for success in foreign markets.

Many other factors may exist internationally – and vary from market to market - such as uncertainties in international political or economic environments, potential currency rate fluctuations, a lack of familiarity with wood construction products and techniques among developers and builders, and a wide variety of technical barriers to trade such as building codes and of phytosanitary measures.

B.C.'s Forest Sector

The forest products industry continues to play a major role in the economic well being of British Columbia. In 2002, forest industry gross domestic product (GDP) expressed in current dollars, totaled

$8.98 billion, representing 7.7 per cent of total provincial GDP. Direct employment in the forest industry totaled 97,100 persons in 2000, representing 6 per cent of total provincial employment. When indirect economic activity is added, the forest sector accounted for approximately 14 per cent of total provincial employment.

B.C. exports a wide range of forest products, the most significant of which are SPF (spruce, pine, fir), coastal whitewood (largely hemlock and fir) and WRC (western red cedar). The United States is the largest export market for SPF and WRC, with Japan accounting for a significant proportion of coastal hemlock-fir products.

The forest sector in B.C. continues to face uncertainty and rapid change in the global environment, and significant policy changes within B.C. Many of the challenges and issues that affect the B.C. forest sector will have an impact on FII. FII's challenge is to overcome these issues and changes as they impact the foreign marketplace, and create new opportunities world wide for BC wood products.

As the continuing trade dispute with the United States over softwood lumber illustrates, the health of B.C.'s forest economy can be significantly impacted by the domestic policy of B.C.'s trading partners. In addition, B.C. products must compete in an international market place where there are aggressive competitors selling similar products or offering cost effective alternatives. The health of B.C.'s forest economy will depend on maintaining access to key existing markets and developing new ones. Historically, international markets have been keenly interested in the sustainability of forest practices in major wood supplying jurisdictions, including BC. While addressing product promotion opportunities in the international marketplace, FII is also responsible for ensuring that B.C.'s forest practices are factually reported so that its reputation can be maintained in the world market.

There is a continuing challenge to overcome misconceptions that exist in new international markets about forest products and the use of wood in construction. Barriers in emerging markets include fire codes, seismic characteristics and other concerns regarding wood's reliability and durability in local climates. All such barriers must be addressed to enable easier access to the foreign market place. FII's strategy is to first ensure these barriers are fully identified and then prioritized in a manner which recognizes the most significant to market access, so that the correct emphasis can be placed on timely resolution of these technical barriers to trade.

Global Wood Supply and Emerging Competitors

For many decades, a handful of producing companies supplied most of the world market for forest products, with Canada accounting for a large share. New countries are competing in B.C.'s traditional markets, creating downward pressure on prices and increased competition for market share in many product categories. B.C. has long enjoyed worldwide recognition as the supplier of choice for solid sawn lumber, panels, and value-added grades of softwood lumber. However, with more international suppliers and increasing global volumes of wood fibre available, B.C.'s position within existing markets is continually challenged by international competitors. Relative to other firms competing in the international market place, B.C. firms are smaller in size. This can have a significant impact on B.C.'s ability to compete internationally, and for B.C. firms to capitalize on business efficiencies, trade networks, and access investment capital.

Domestic Wood Supply

B.C.'s forest land base sustains the wood product manufacturing sector. A notable concern related to the forest resource itself is the impact of forest pathogens and other natural disturbance agents. The unprecedented epidemic of mountain pine beetle, for example, has continued to expand and is expected to worsen unless climatic conditions cause a collapse of the beetle population. While this is the most significant concern, wildfire and other forest health agents have affected a large volume of wood. There is a need to identify and communicate how this wood can be used, and the characteristics and quality of the resulting products.

Substitute Products

Wood is also facing competition from suppliers of substitute products such as concrete, steel and plastics. Many of these competitors are constantly working to improve the qualities and attributes of their products. They often work more closely with customers to understand and respond to their needs, to invest in new and improved products, and to solve product or application problems. What was once disproportionately a commodity business is becoming a more complex mix of commodity and value-added opportunities and threats.

Sustainable Forest Management and Certification- Getting the Message Out

The province, as the steward for 95 per cent of B.C.'s land base, faces many challenges as it strives to show that Crown forests are being managed well, and that wood from these forests is almost always an environmentally superior building choice. Domestic and international customers want assurance that B.C. practices sustainable forest management, and some conservation groups and substitute product competitors have invested significant effort urging less consumption of forest products for environmental reasons.

Certification is increasingly seen as one means of proving excellence in forest stewardship.

Virtually every major B.C. forest company has either achieved or is pursing third-party certification. It is expected that, over time, certification will become more of a prerequisite for access to global forest product markets.

It is important that customers have a better understanding of B.C.'s forest practices, and that the information provided is based on fact and is timely to respond to potential issues. Information to international markets must be provided in a variety of languages.

Keeping Pace with Change

B.C.'s forest economy is in the midst of major changes. Government is implementing the Forestry Revitalization Plan to respond to new market demands and the *Forest and Range Practices Act* to deliver on-the-ground results more efficiently and effectively. At the same time, a number of major land use planning processes, including the Central Coast land and resource management plan, are nearing completion and the Interior is responding to a massive mountain pine beetle infestation and the aftermath of the 2003 wildfires.

The changes and challenges present a number of opportunities. They also place new demands on the research community, licensees and government to ensure the knowledge, the tools and supporting systems are in place so B.C. can maintain its position as a leader in world-class forest management. The province must also demonstrate to customers that it can embrace this amount of change and continue to maintain, if not improve, its high level of environmental protection.

C. GOALS, OBJECTIVES, STRATEGIES AND TARGETS

Forestry Innovation Investment expects to fulfill its mission and vision by achieving four goals. The first three goals relate to aspects external to the corporation while Goal 4 (effective governance) reflects the internal operations of the company and supports and ties together the other goals. This section provides details on each, how they will be achieved and performance targets over the next three years.

Goal 1:	**Effective marketing of BC forest products leading towards a robust and globally competitive forest industry.**
Goal 2:	**Effective communication of B.C.'s sustainable forest management to forest product customers around the world.**
Goal 3:	**A coordinated approach to market development that optimizes partner and recipient contributions.**
Goal 4:	**Sound governance, effective administration, and streamlined operations.**

The goals, objectives, strategies, performance measures and targets for expected results (outcomes) are the basis for the FII's public accountabilities. The annual service plan report will compare actual performance with these targets.

The achievement of these targets will be influenced by factors that FII cannot control and that can have a great impact (positive or negative) on market access, such as global trade developments or exchange rates. Forest and land use policy developments can also affect the scope and design of some FII investments, or establish new needs and priorities for FII.

This is the second year of operation for Forestry Innovation Investment under the *Budget Transparency and Accountability Act*. During this year, FII will continue to draw on market information and strategic studies to establish quantifiable performance targets. At this stage, certain initial targets have been established, which will be confirmed or built upon as the nature and scale of the opportunities for various forest products in these markets are more fully defined. The strategies in these situations will include conducting research that will provide information on the market opportunities and will be used to establish baselines and targets for future years.

Goal 1: Effective marketing of BC forest products leading towards a robust and globally competitive forest industry.

Outcome: Increased value of wood product sales

The health of B.C.'s forest sector depends on its ability to compete successfully in the global marketplace. The major focus of investments under Goal 1 will be marketing activities to increase B.C.'s share in existing markets and to identify and develop new opportunities in emerging markets. This includes the identification of market opportunities, the identification of potential new applications for existing forest products and the development of new forest products. FII also supports this goal through product development initiatives, including the development of new, innovative wood products and manufacturing processes, development of new applications for existing wood products, and extending this information to the forest sector. Investments will be guided by market strategies that aim to coordinate the industry and other key partners to focus collective resources on shared targets and strategies.

FII has focused on developing market strategies for all of the priority markets identified. As these strategies become fully developed, FII will be in a better position to identify specific activities that will support the strategies, and thereafter establish the performance measures and specific targets for those activities undertaken.

Objective 1: B.C. wood product manufacturers have maintained or improved access to priority markets

FII investments support activities that identify and remove existing and emerging technical and non-tariff barriers to markets. In new and developing markets, the focus will be to work with potential trading partners and agencies to identify and address policies, building codes, and other barriers that prevent or restrict the ability of B.C. producers to access markets. Within existing markets, efforts will focus on maintaining and increasing market access or, where applicable, reducing declining market share by proactively addressing emerging threats.

Strategies:

- ❑ Collect comprehensive information to identify technical and non-tariff market barriers
- ❑ Develop and implement strategies to remove technical and non-tariff barriers that affect market access

Objective 2: B.C. is a leader in wood product quality and manufacturing efficiency.

B.C. must continue to develop a culture of innovation to ensure that wood products are high quality, respond to market opportunities and are produced efficiently.

Strategies:

- ❑ Develop and test forest products and manufacturing processes
- ❑ Identify and test innovative applications for new wood products
- ❑ Extend technical information to B.C. manufacturers

Objective 3: Increased market acceptance and demand in emerging and existing markets

Ultimately, B.C.'s performance in the marketplace depends upon consumer demand for its wood products. FII has committed to developing strategies in priority markets to identify current levels of market acceptance, opportunities for improved market awareness and demand for B.C. forest products. Investments will be made to improve performance in both existing and emerging markets. Within existing markets such as the United States and Japan, activities will be geared to maintaining and improving market share, and where applicable, reducing declining market share by promoting B.C. forest products as a better alternative to competing wood products or substitute products. In new or developing markets, FII investments will typically be used to develop customer awareness of B.C. wood products and their uses as an essential first step to strengthening demand.

Strategies:

- ❑ Collect comprehensive market information and develop market-specific development strategies
- ❑ Determine level of market acceptance for new and existing products and applications
- ❑ Increase market awareness, acceptance and demand
- ❑ Promote B.C. forest products

Objective 4: Market acceptance of wood affected by natural disturbance agents.

Forest pathogens and natural disturbance agents, which could include the mountain pine beetle, fire, and other insects, have affected a significant volume of wood in B.C., presenting a marketing challenge to wood product manufacturers.

Strategies:

- ❑ Develop and test forest products derived from wood affected by natural disturbance agents
- ❑ Extend technical information to B.C. manufacturers on the properties, characteristics and safety of products derived from wood affected by natural disturbance agents
- ❑ Determine level of market acceptance and increase market awareness, acceptance and demand for products derived from wood affected by natural

disturbance agents

Performance Measures	Baseline/ Current Year (Benchmark)	Targets		
		2004/05	2005/06	2006/07
Goal 1: Effective marketing of BC forest products leading towards a robust and globally competitive forest industry.				
❑ Value of wood product sales ❑ Market share for B.C. wood products	Baselines to be developed for key product mixes and species in key target markets B.C.'s share of the US and Japanese softwood lumber markets.	Maintain market share in the US and Japan. Market share increase in key emerging markets (China, Taiwan, Korea). Develop specific targets for other key markets and products. Tested uptake and acceptance of product promotion materials and activities provided by FII and its recipient organizations.	Maintain market share in the US and Japan. Improvement in performance in emerging markets (China, Taiwan, Korea). Identification of potential for BC wood products in other markets. Increase in uptake and acceptance of product promotion materials and participation in market activities among key customers.	Maintain market share in the US and Japan Improvement in performance in Chinese, Taiwanese and Korean markets. Initiation of product promotion activities in other emerging market areas, as identified. Tested satisfaction of key international customers with product promotion materials and market activities delivered by FII and its recipient organizations.
Objective 1: B.C. wood product manufacturers have maintained or improved access to priority markets.				
❑ Number and significance of strategic non-tariff barriers identified and addressed	Non-tariff barriers identified and prioritized for each market as part of their respective market strategies. Progress in the approval or development of wood building codes for China, Taiwan and	Acceptance of wood construction in Japanese non-residential low-rise building and fire codes.	Wood building codes for Korea implemented. Market access improved in priority	Market access improved in priority markets as indicated by reduction in number of non-trade barriers

disturbance agents

Performance Measures	Baseline/ Current Year (Benchmark)	Targets		
		2004/05	2005/06	2006/07
Goal 1: Effective marketing of BC forest products leading towards a robust and globally competitive forest industry.				
❑ Value of wood product sales ❑ Market share for B.C. wood products	Baselines to be developed for key product mixes and species in key target markets B.C.'s share of the US and Japanese softwood lumber markets.	Maintain market share in the US and Japan. Market share increase in key emerging markets (China, Taiwan, Korea). Develop specific targets for other key markets and products. Tested uptake and acceptance of product promotion materials and activities provided by FII and its recipient organizations.	Maintain market share in the US and Japan. Improvement in performance in emerging markets (China, Taiwan, Korea). Identification of potential for BC wood products in other markets. Increase in uptake and acceptance of product promotion materials and participation in market activities among key customers.	Maintain market share in the US and Japan Improvement in performance in Chinese, Taiwanese and Korean markets Initiation of product promotion activities in other emerging market areas, as identified. Tested satisfaction of key international customers with product promotion materials and market activities delivered by FII and its recipient organizations.
Objective 1: B.C. wood product manufacturers have maintained or improved access to priority markets.				
❑ Number and significance of strategic non-tariff barriers identified and addressed	Non-tariff barriers identified and prioritized for each market as part of their respective market strategies. Progress in the approval or development of wood building codes for China, Taiwan and	Acceptance of wood construction in Japanese non-residential low-rise building and fire codes.	Wood building codes for Korea implemented. Market access improved in priority	Market access improved in priority markets as indicated by reduction in number of non-trade barriers

	Korea. Initiate activities to address fire code issues in China and non-residential, low-rise issues in Japan. Product testing undertaken with scientific institutions in key markets to address non-tariff trade barriers.	Implementation of wood building codes for China and Taiwan Market access improved in priority markets.	markets as indicated by reduction in number of critical non-tariff trade barriers addressed (3 -5 in key markets).	addressed (3 -5 in key markets).

Objective 2: B.C. is a leader in wood product quality and manufacturing efficiency.				
❑ Return on investment for FII funded projects	No baseline currently in place; investments tracked through monitoring activities and some sales data.	Develop an ROI methodology and establish baseline and targets.	Positive ROI from all recipient projects.	Positive ROI from all recipient projects.
❑ New products, applications or processes developed and implemented	FII investments supported the development of 7 to 10 products, applications or processes.	7 to 10 products, applications or processes.	7 to 10 products, applications or processes.	7 to 10 products, applications or processes.

Objective 3: Increased market acceptance and demand in emerging and existing markets.				
❑ Market specific strategies	Marketing strategies developed in China, Korea, Taiwan in 2003/04. Preliminary work undertaken for other markets.	Strategies implemented in China (see below), and in Korea and Taiwan. Strategies developed for Japan, United States, and Europe.	Implement specific investment strategies for each market	Increased market acceptance for BC wood practices and products; and increase in sales of B.C. wood products.
❑ Implement marketing strategy for China	Developed the Dream Home China concept, identified suitable sites for development, identified land partner for the presentation centre and villas construction phase, established legal structure and broke ground on the project.	Construction of presentation centre and single family demonstration facilities. First phase of marketing,	Wood interior wall and roof truss assemblies developed and tested in hybrid structures.	Increased use of wood frame construction, and in sales of B.C. wood products in China.

	Dream Home China website established in English and Mandarin.	market research, tech transfer and demonstration activities initiated. Suitable sites identified for multi-family and hybrid construction phases of project. Database of key developers and builders established. Events held to showcase wood construction to builders and developers. Consumers begin to tour Demonstration Centre and Villas.	Multi-family structures constructed. Marketing, market research, tech transfer activities continue. Initial quantitative data on developer, builder and consumer preferences available. Full acceptance of wood frame construction in the building code, acceptance of hybrid structures in local codes.	Quantitative data available to BC forest sector on consumer, builder and developer preferences in China. Increased number of developers and builders familiar with wood construction.

❑ Level of market/customer acceptance for B.C. wood products	Level of market acceptance in key markets – baseline to be developed through market/ customer surveys.	Higher level (2 - 5% increase) of acceptance of key target groups.	Higher level (2 – 5% increase) of acceptance of key target groups.	Higher level (2 -5% increase) of acceptance of key target groups.

Objective 4: Market acceptance of wood affected by natural disturbance agents.				
❑ Level of market/customer acceptance for B.C. wood products derived from wood affected by natural disturbance agents (fire, mountain	MOU between the Province of B.C. and the Science and Technology Council (Shanghai). MOU signed between BC and the Chinese Academy of	Implement projects with Chinese authorities to facilitate the testing of wood	Some level of customer acceptance and visible use of wood affected by	Continued increase in the level of customer acceptance and use of wood

pine beetle, etc)	Forestry to test the use of wood affected by natural disturbance agents.	affected by natural disturbance agents. Similar activities undertaken in other key market areas where staining or other issues with natural disturbance agents may present non-tariff trade barriers. Identification of requirements for the import of wood affected by natural disturbance agents in key market areas.	natural disturbance agents.	affected by natural disturbance agents.

Goal 2: Effective communication of B.C.' s sustainable forest management to forest product customers around the world.

Outcome: Customers have the information they need to support their purchasing decisions

B.C. is positioned as a global leader in sustaining environmental values and forest resources. The province's commitment to sustainable forest management represents a significant opportunity as customers are increasingly factoring environmental practices into purchasing decisions. FII is committed to providing customers with neutral, factual and credible information about forest management in B.C.

Objective 1: International awareness and support of B.C.'s forest management practices and performance.

Strategies:

- ❑ Provide international customers with timely, credible information regarding B.C. forest practices
- ❑ Monitor and analyze mainstream and trade media
- ❑ Conduct in-market activities through trade shows, seminars, and meetings with customers

Objective 2: FII is the primary source for timely and credible forest management information for customers.

Strategies:

- ❑ Streamline the production and distribution of forest management information
- ❑ Coordinate the communications and the delivery of information about forest practices and liaise with industry, government and communities to ensure factual information reaches target audiences
- ❑ Produce technically accurate and neutral information products

Performance Measures	Baseline/ Current Year (Benchmark)	Targets 2004/05	2005/06	2006/07
Goal 2: Effective communication of B.C.'s sustainable forest management to forest product customers around the world.				
Objective 1: International awareness and support of B.C.'s forest management practices and performance.				
❑ Level of awareness and support for B.C. forest management ❑ Number of website visits	Establish comprehensive benchmark information based on number of visits to the websites and results of customer surveys – approximately 20,000 visits anticipated in 2003/04. Implement testing of booth visitor reaction. bcforestinformation.com and other tools established in English, German and Japanese.	Increased awareness and support for B.C. forest management. 5% increase in website visits. Electronic and other communication tools expanded to include translation into other languages for key markets –Mandarin, and other languages as indicated by customer need.	Increased awareness and support for B.C. forest management. 5% increase in website visits. Continued maintenance and expansion of electronic and other communication tools to provide information in formats accessible to key markets/ audiences to respond to priority issues.	Increased awareness and support for B.C. forest management. 5% increase in website visits. Continued maintenance and expansion of electronic and other communication tools to provide information in formats accessible to key markets/ audiences to respond to priority issues.
❑ Number of in-market activities conducted	5-7 in-market projects conducted.	5-7 in-market projects conducted.	5-7 in-market projects conducted.	5-7 in-market projects conducted.
❑ Timely dissemination of relevant information	Timely response to the market need for information and development of BC Forest Facts fact sheets.	Timely response to the market need for information (e.g., fact sheets).	Timely response to the market need for information (e.g., fact sheets).	Timely response to the market need for information (e.g., fact sheets).

Objective 2: FII is the primary source for timely and credible forest management information for customers.				
❑ Level of customer utilization and acceptance of FII information	Baseline information developed in 03/04.	Continued high level of credibility of FII information.[1]	Continued high level of credibility of FII information.	Continued high level of credibility of FII information.

Goal 3: A coordinated approach to market development that optimizes partner and recipient contributions.

Self-reliance and a culture of innovation are essential to the long-term competitiveness of B.C.'s forest sector. FII works in partnership with government and the forest sector to improve the level of coordination with key partners, establishing greater cohesion within the forest sector and increasing the level of partner participation in FII initiatives.

Objective 1: Increased level of partner support for FII projects and initiatives.

Strategies:
- ❑ Cost share projects with industry and other partners

Objective 2: Increased coordination among forest sector partners and support for FII strategies.

Strategies:
- ❑ Strengthen the linkages between forest industry partners by pursuing coordinated marketing initiatives through forest sector associations
- ❑ Work with federal, provincial and industry partners to identify and develop opportunities to coordinate programs and activities

[1] Actual targets will be determined depending on the baseline information – if initial data shows low/moderate utilization and acceptance, then a specified percentage increase will be the target; if initial acceptance is high, then target will be to maintain that high level

Performance Measures	Baseline/ Current Year (Benchmark)	Targets 2004/05	2005/06	2006/07
Goal 3: A coordinated approach to market development that optimizes partner and recipient contributions.				
Objective 1:Increased level of partner support for FII projects and initiatives.				
❑ Leveraged funds as a percentage of total project costs	Baseline for leveraging. 35% of total project costs supported by industry for IM/PD offshore projects and 50% for U.S. focused IM/PD projects.	Secure partner contributions partners for Dream Home China and BC Market Outreach Network Initiatives.	Continue to increase the level of partner support.	Continue to increase the level of partner support.
Objective 2: Increased coordination among forest sector partners and support for FII strategies.				
❑ Value of projects funded through FII that support sector-wide strategies	Establish sector-wide strategies for China and Korea.	100% of funded projects are in compliance with adopted strategies for China and Korea. Strategies developed for Japan, United States and Europe.	100% of projects are in compliance with adopted strategies.	100% of projects are in compliance with adopted strategies.

Goal 4: Sound governance, effective administration, and streamlined operations.

FII is a highly focused and dynamic organization that maintains flexibility to respond to emerging forest sector needs and ensure low overhead and operating expenses. FII is committed to the development and implementation of sound business practices incorporating strong financial controls, a performance management framework, and a monitoring, audit and evaluation program built on a comprehensive risk assessment strategy, all developed in accordance with government policies and guidelines for the respective areas.

Objective 1: A results-focused organization.

Strategies:

- ❑ Develop and implement a performance-based management and budgeting framework
- ❑ Refine business processes to optimize efficiency and cost-effectiveness

Objective 2: An accountable and transparent organization.

Strategies:

- ❑ Conduct comprehensive risk assessments across the whole corporation
- ❑ Monitor, audit and evaluate FII highest-priority projects and programs as identified through the risk assessments
- ❑ Ensure regular and accurate reporting on the results of investments in support of corporate goals and objectives and in accordance with government and contractual requirements.

Performance Measures	Baseline/ Current Year (Benchmark)	Targets 2004/05	2005/06	2006/07
Goal 4: Sound governance, effective administration, and streamlined operations.				
Objective 1: A results-focused organization.				
❑ Percentage of FII budget that is allocated to administration	Implemented performance based management and budgeting framework in 2003/04.	4.5 % of total FII budget or less allocated to admin. subject to FII board direction.	4.5 % of total FII budget or less allocated to admin. subject to FII board direction.	4.5 % of total FII budget or less allocated to admin. subject to FII board direction.
❑ Percentage of corporate performance targets achieved	Performance targets under development.	Achieve performance targets.	Achieve performance targets.	Achieve performance targets.
Objective 2: An accountable and transparent organization.				
❑ Corporate and program level risk assessments conducted for all programs and corporately ❑ Monitoring, audit and evaluation activities completed in accordance with approved Audit and Evaluation Plan and reported on within timelines established	Risk assessments and corporate audit plan prepared. 100% of funded projects monitored. 90% of IM/PD projects audited. Evaluated 3 key projects.	Monitor 100% of funded projects. Audit Plan implemented, including audits of 75% of IM/PD projects, and other programs as determined through the risk assessment. Evaluation of 2 key projects, program areas or markets.	Monitor 100% of funded projects. Audit Plan implemented, including audits of 60% of IM/PD projects, and other programs as determined through the risk assessment. Evaluation of 2-3 key projects, program areas or markets.	Monitor 100% of funded projects. Audit Plan implemented, including audits of 50% of IM/PD projects. and other programs as determined through the risk assessment. Evaluation of 2-3 key projects, program areas or markets.
❑ Meeting targets and reporting deadlines	Achieved 100% of established reporting deadlines. Substantive performance agreements in place with recipients.	Achieve 100% of established reporting deadlines. Release Call for Proposals by January. Announcement of successful proponents by end of April.	Achieve 100% of established reporting deadlines. Release Call for Proposals by January. Announcement of successful proponents by end of April.	Achieve 100% of established reporting deadlines. Release Call for Proposals by January. Announcement of successful proponents by end of April.

D. CONSISTENCY WITH GOVERNMENT'S STRATEGIC PLAN

Through its goals, FII primarily supports the government's long-term goal:

- A strong and vibrant provincial economy

With the transfer of the Research program, FII now is the delivery vehicle for one main government commitment, specifically, the allocation of 1 per cent of all direct forest revenues committed to international marketing of B.C. forest products and forest practices. However, it also contributes towards the achievement of other commitments.

The linkages between FII goals, objectives and strategies and the Province's Strategic Plan are presented below. For each of the relevant provincial strategies, FII goals, objectives and strategies are identified as appropriate.

Goal 1: A Strong and Vibrant Provincial Economy

Strategy: Innovation and Economic Growth		
Provincial Strategies	**FII Strategies**	**2004/05 – 2006/07 Service Plan**
❑ Support a culture of innovation that transfers science and technology from the research stage through to development and the commercial marketplace	❑ Develop/improve forest products and manufacturing processes. ❑ Extend technical information to B.C. manufacturers.	❑ Refer to Goal 1
❑ Develop and implement a long-term economic development strategy	❑ Develop and implement new international marketing initiatives. ❑ Provide international customers with timely credible information regarding B.C. forest practices.	❑ Refer to Goals 1, 2

Strategy: Management of Government		
Provincial Strategies	**FII Strategies**	**2004/05 – 2006/07 Service Plan**
❑ Reform the province's Crown corporations so that they focus on public service efficiency and effective service delivery	❑ Develop and implement a performance-based budgeting framework. ❑ Refine business processes to optimize efficiency and cost-effectiveness.	❑ Refer to Goal 4

E. SUMMARY FINANCIAL OUTLOOK

FII's programs are part of the Forest Investment vote of the Ministry of Forests. As such, FII is subject to an allocation of the annual appropriation provided for this purpose. FII receives its actual funding under an annual agreement with the Minister of Forests, based on the appropriated amount, and each year, is required to return any unspent appropriated funds to the province so no excess of funds over expenditures is shown. The following table provides a summary of FII's resource allocations. In the absence of information regarding future years, a constant budget is shown for all 3 years forecasted.

2004/05 - 2006/07 Consolidated Budget Summary ($ '000s)[2]

	Goal	2004/05	2005/06	2006/07
Revenues[3]				
Receipts- Province of B.C.		**18,707**	**18,500**	**18,500**
Operating Expenses				
Marketing	1	8,613	8,613	8,613
Product Development	1	6,220	6,220	6,220
Market Communications – BCMON	2	2,871	2,871	2,871
Governance and Corporate Services[4]	4	796	796	796
Transition of the Research Program[5]		207		
Total Expenditures		**18,707**	**18,500**	**18,500**
Excess of Funding Over Expenditures		**0**	**0**	**0**
PROGRAM STAFF				
Marketing[6]	1	5	5	5
Market Communications	2	4.5	4.5	4.5
Governance and Corporate Services	4	1.5	1.5	1.5
Total		11	11	11

[2] This table includes the consolidated budget of FII Ltd. and its wholly owned subsidiary, FII Shanghai.

[3] FII Shanghai may also receive funds from other sources such as industry and the federal government to help finance the Dream Home China project. At this time, the amounts of such contributions are unknown and have not been included in this budget summary.

[4] Governance and Corporate Services includes the salaries and benefits for staff, except where they are involved in program delivery (i.e. BC Market Outreach Network, Dream Home China). It also includes the finance, administration, information technology and human resource support services for all corporate core businesses.

[5] Effective April 1, 2004, a new administrator will manage the Research program. FII will close out the 2003/04 research projects during the first quarter of the year.

[6] The Marketing staff includes those working in International Marketing, Product Development and FII Shanghai.

FII Consulting (Shanghai) Co. Ltd. – Budget Summary ($ '000s)

	2004/05	2005/06	2006/07
Revenues			
FII Ltd.	**3,000**	**1,500**	**1,500**
Operating Expenses			
Marketing	2,250	1,000	1,000
China Operations[7]	750	500	500
Total Expenditures	**3,000**	**1,500**	**1,500**
Excess of Funding Over Expenditures	**0**	**0**	**0**
PROGRAM STAFF			
Marketing/Operations[8]	**2**	**2**	**2**

Forecast Risks and Sensitivities
1. FII is funded by an appropriation provided to its programs through the Ministry of Forests and the annual estimates process in the legislature. While this document presents a three-year plan, FII operates one year at a time, with future years contingent on the vote in the legislature. 2. FII is committed to funding the Dream Home China project through FII Shanghai for a period of three years from the date of opening, subject to the annual appropriation being sufficient to support the project. 3. While operating in a foreign country, exchange rate variations can have a significant impact on the funding of operations, particularly with a strong currency such as the Chinese renminbi, which is under some pressure to revalue. FII is considering various options with respect to mitigating this risk. 4. The FII Consulting (Shanghai) Ltd. operations function as a division of FII Ltd, and are managed through a rigorous control framework. All transactions are subject to regularly-scheduled third party audit. 4. Other risks associated with the project are managed through comprehensive legal agreements, an extensive control framework, and the engagement of legal and financial advisors in British Columbia and China.

[7] The China Operations includes the office expenditures – no separate amount is shown for administration as FII Shanghai is merely a marketing program delivery mechanism of FII

[8] There are two permanent staff members working in FII Shanghai, other people that may be necessary will work on a contract basis for assigned tasks.

F. Attachment - Governance Values

Forestry Innovation Investment Ltd. is committed to the following principles to guide its activities and delivery of services:

Accountability – Establishing structures and processes, setting performance-based standards and measures, and implementing compliance monitoring, auditing and reporting to enable and demonstrate cost-effective progress towards FII goals and objectives.

Competitiveness – Ensuring that British Columbia remains internationally competitive by improving the value derived from B.C.'s forest land asset. This involves investments that improve manufacturing processes and products, as well as marketing and communication activities to increase B.C.'s market share in both new and existing markets.

Continual improvement – Learning from the past and improving the effectiveness and efficiency of FII programs.

Efficiency – Optimize the use of resources by recipients and FII.

Innovation – Encouraging innovative approaches, technologies and skills to enhance a globally competitive forest industry.

Knowledge-based decision-making – Making informed decisions built on market-based information and risk assessment.

Transparency – Establishing open and understandable decision-making and investment processes. Transparency also includes regular performance reporting.

Positive Return on Investment – Ensuring that FII investments optimize the return to British Columbia. This requires that an appropriate balance between short-term and longer-term returns is achieved.

Competitive Tendering – Ensuring that FII policies on competitive tendering are applied.

Working in Partnership – Working in partnership with internationally recognized associations to ensure that FII services and functions can be efficiently delivered and to ensure that funds are used to address priority issues and needs of the forest sector.